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Uniform Standards and Methods of Accounting A Fundamental Necessity.

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(An address before the Association of American Government Accountants.)

TOPICS.

Standards.
Purpose of Accounting.
Purpose of Government.
Development of an Exact Science of Government.
Uniform Accounting Systems for all Governments of the Same Class.
Effective Economic Regulation.
Public Policies Must be Governed by Facts.
An Accounting Should be Required from the Beneficiaries of all Special Privileges.
Ship Subsidy.
Protective Tariff.
Scientific Accounting and the Budget System.
A New Co-ordinate Branch of Government Needed.
Conclusion.

STANDARDS.

Standards are clearly defined and universally accepted measures by which the rightness of moral, economic and political thoughts and actions may be determined. A standard meaning for words is necessary to render language intelligible. Standard weights and measures are necessary to ren-

der the production and exchange of commodities possible. A standard unit of value is an indispensable basis for the development of denominational currency and a system of accounting expressed in terms of money.

Such standards have been defined and accepted for so long a time it is difficult to form an adequate conception of the conditions of human life at a period when they were unknown, or when argument was needed to demonstrate their utility. Appreciation of the utility and value of such standards should inspire an intense desire to add to their number whenever new standards are found necessary to formulate human experience into concrete statements of facts scientifically determined.

Those who developed mathematics into an exact science rendered a service to humanity of such transcendent importance it may be thought none other can be equal to it, but the day will come when those who aid in standardizing the units and methods of accounting so as to make it possible to formulate experience into concrete statements of facts scientifically determined will be recognized as having rendered a service second to none other in value. Accounting can be developed into an exact science only by standardizing comparable units of efficiency and methods of record keeping.

Through the exact science of mathematics and the exact science of accounting an exact science of Government can be developed.

PURPOSE OF ACCOUNTING.

In private business the purpose of accounting has advanced from a mere record of exchanges between buyers and sellers to an analysis of infinite detail to show the true effect upon general results of every economic factor involved, and also the effect of every phase of the adopted business policy. Units of efficiency are standardized to render efficiency comparisons possible. Success in the management of business undertakings is best promoted through the aid of accurate and scientific accounting.

Accounting in public business was originally intended simply to show the honesty of public officials and employes. Lacking the incentive of achieving success under conditions of keen competition, public accounting and methods of handling all business details has not made as great an advance toward the creation of uniform standards and methods as has been made in private business. In recent years, however, the fact that the government cannot perform its duties in a satisfactory manner without employing standards of efficiency and scientific methods of accounting has been continually growing clearer until it is about to receive universal recognition and

acceptance. It is beginning to be understood that the helpfulness of government can be best shown by the effects of its policies upon the common good demonstrated by scientifically stated facts.

The efficiency of the government involves the management of its various departments as working organizations and the effects of its regulations on the morals and business of the people governed.

Honest accounting may be so done as to be entirely worthless in demonstrating economic efficiency. The accounting system of the great departments of the government may be done in a manner that will show an honest record for every dollar received and expended without giving any clue to economic facts of equal importance showing the comparative efficiency of their administration.

The day is approaching when the people will demand that their government shall not only show how much money it has received and expended, but also an accounting for all public property which shall demonstrate that its administration has been conducted with a due regard for economic efficiency.

The day will come when the people will limit the power of their government to collect revenue from them, by whatever means to an amount not greater than is required for the effective performance of its duties when economically administered.

The day has come when the demand is made that the accounts of all public business shall be analyzed in sufficient detail to show the true effect upon the common good of every economic factor involved, and also the effect of every phase of the adopted public policies. That this may be done, units of efficiency must be standardized and uniform methods of accounting must be developed that will render comparative statements possible.

The function of government possessing the greatest power for good is its ability and duty to formulate human experience into concrete statements of facts scientifically determined.

This is the master key that will open the way for progress to a better civilization.

PURPOSE OF GOVERNMENT.

Business accounting is rapidly being developed into an exact science that can be depended upon to guide energy to the achievement of the object of the enterprise—money making.

Public accounting needs to be developed into an exact science that can be depended upon to guide public policies to

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the achievement of the purpose of government—the promotion of the common good.

The people of this country are now engaged in the task of demonstrating to the world that their form and system of government is the best ever devised for the promotion of the common good. This affirmation can be established as a fact only by proving that under its administration each of its citizens is guaranteed equal opportunity to the enjoyment of life, liberty and the pursuit of happiness, so far as such equality can be promoted by legislative exactments and governmental administration. To make this guarantee effective, it must be made certain that no person shall, in the exercise of rights so secured to him, infringe upon the similar rights of any other person. This requires the fulfilment of moral and economic law and the realization of the requirements of justice in the conduct of every citizen.

DEVELOPMENT OF AN EXACT SCIENCE OF GOVERNMENT.

The development of an exact science of government will become possible only when the exact science of accounting has made effective economic regulation a realized fact.

Progress in this direction has been retarded because the policies of government have been determined by considerations of political expediency rather than by the requirement of true moral and economic principles.

Relative business efficiency is at once determined by recognized standards of commercial success. At the present time we have no recognized standards of governmental success by which relative efficiency in public service can be determined or the relative efficiency of governments can be established. Such standards are necessary to supply an incentive to achieve success in the policies and administration of government, which will be equivalent to the incentive of achieving commercial success which inspires all efforts to make improvements in the management of private business.

One penalty for permitting governmental policies to be determined by political expediency is being paid by the slow improvement made in the effective management of public business, and the retarded advance toward the creation of uniform standards of efficiency and methods of scientific accounting everywhere shown in the administration of public affairs.

We need service records that will show the relative efficiency of every public employee, however and whenever employed, by a school district, a township, a village, a city, a county, a State, or the Federal Government. The existence of such records will enable every employee to demonstrate his worth to his employers—the people—and to the dispensers of political patronage. Such records will develop a public opin-

ion that will enable every public employee to hold his position and to win promotion by virtue of his own merit unaided by favoritism of any kind.

Such records will establish the rule of filling all positions in the public service, above initial primary grades, by promotions from a lower to a higher grade determined by merit, and by merit alone. Such records will destroy the vicious principles of "rotation in office" and "to the victors belong the spoils," by demonstrating to the people the wisdom of retaining elective officials in office, and of promoting them, as long and as far as their devotion to the common good will justify.

An exact science of government, if developed at all, must be developed by those who devote their lives to the study of governmental efficiency; to formulating correct standards; to the improvement of accounting methods; to the development of functions; to the regulation of activities; to the unerring determination of justice, guided thereto by facts with which they become familiar through the services they render.

When civil public service is recognized and dealt with as a profession it will attract persons endowed with a high degree of brain efficiency and inspired with true patriotism who will make as honorable records in their respective spheres of duty as have ever been made by "the men behind the guns" or by their commanders. Such men, secure in their positions and performing their duties under a system of civil administration, at least as well devised for its purpose as the system of military and naval administration, will develop models of efficiency out of the inefficient school district, township, village, city, county, State and Federal Governments now existing. When this is done an exact science of government can be established.

UNIFORM ACCOUNTING SYSTEMS FOR ALL GOVERNMENTS OF THE SAME CLASS.

Efficiency can be shown only by comparison. It may be indicated in private and in public business by comparisons of the records of one year with another. The value of such comparison will grow as the experience of year after year is added. But the real test of efficiency will be found in comparisons of experience between all governments of the same class rather than in comparisons of the experience of the same governments for one year with that of other years. That such comparisons may be scientifically made, the accounts of all governments of the same class must be kept by a uniform system. From such accounts only can comparable statistics be obtained.

The effective administration of governments requires specializing the work into departments. The system of accounting should be devised to cause each department to make an efficiency record comparable with the similar records of all

other departments, and to permit a grouping of the statistics of each government in statements comparable with the similar statistics of all other governments of the same class. When this is done those who make civil service a profession, and those who study civic problems as a scientific or a patriotic duty, will be guided by the recorded facts of experience, which will render their conclusions a safe basis for public action.

Comparable statistics derived from uniform systems of accounting are to governments what correct service records are to public employees in establishing relative efficiency, in demonstrating true merit. It is much to the employees and officials of a school district to have the people of their districts believe they have administered the duties of their public trust efficiently and well, but it is infinitely more to them to have the people of their district *know* this has been done because the *fact* has been established by comparison with the administration of every school district in the State. This statement is true with cumulative emphasis, as the affairs of government grow in magnitude, for the employees, officials and people of townships, villages, cities, counties, States and National governments.

This fact is beginning to be understood and appreciated. One item may be quoted to illustrate this point, taken from the *New York Evening Post* for January 5, 1910:

"Chicago, January 4.

"Elton Lower, president of the Civil Service Commission, appeared before the City Council Finance Committee yesterday with a request for an appropriation of $50,000 to carry out a new efficiency plan which would result in an annual saving of $300,000, in the opinion of Alderman B. W. Snow, chairman of the Finance Committee.

"Mr. Lower's plan, which has the approval of the Civil Service Reform Association, contemplates the establishment of a bureau of experts to keep a constant record of the efficiency of municipal employees, to investigate and examine, and in general to carry out the provisions of the city civil service act.

"It aims, in a few words, to apply to the municipal service what has been tried and found successful in large corporations. Boston, New York and Washington, it is said, have long been figuring on such a scheme as Mr. Lower has proposed."

The grouping of accounts should be devised to bring into full view and correct relation every item and factor necessary to show true conditions and to establish relative efficiency.

Fundamentally, it is the business of every government to show the care and thrift with which it preserves, maintains, improves and uses government property of every sort and kind. Dollars invested in property or supplies should be looked after and accounted for with as much accuracy as dollars invested in current funds. This is a sadly neglected field of investigation.

When rightly investigated and the wastage of negligence and unthrift have been corrected, the fact that wastage of public property and supplies is an important factor in the increased cost of government will be clearly demonstrated.

Next in order is the development of all sources of revenue. Such sources should be classified properly to show the contribution made to the public treasury by every vocation, industry or business. Such accounts will show the diligence of public officials in collecting all that is lawfully due to the government from the taxpayers in each class and the care with which they look after the small change that should come into the treasury by means of fees, fines, and dues of every class, and salvage from the sale of wornout or discarded machinery, tools, furniture and waste material of every kind. It is not a violent assertion to state that the loss caused by lack of efficiency in these respects is a far heavier burden on taxpayers than all losses caused by dishonesty. The negative graft caused by failure to collect what is due to the government is far greater than the positive graft caused by failure to account properly for all money collected.

The lack of a comprehensive appreciation of all that is included in the exact science of accounting is shown by the fact that popular thought is almost wholly centered upon honest accounting for *all money received.* It seldom looks after the efficient collections of *all money that should be secured.* It has never grasped the fact that effective thrift in expenditure is more important than honesty in expenditure, because losses caused by incompetency and wastefulness are enormously greater than losses caused by dishonesty. *It is as important to show what becomes of things bought with money received as it is to show how money received has been expended.*

EFFECTIVE ECONOMIC REGULATION.

There can be no effective economic regulation without scientific accounting. This is true of all regulation. It applies with equal force to the regulation of private affairs by the person interested; to the regulation of partnership affairs by the partners interested; to the regulation of corporate affairs by the shareholders interested; and to the regulation of public affairs by members of legislative bodies and by the public officials in the departments of administration and justice.

There can be no scientific accounting without a grouping of items that will correctly show the relation to each other of every essential economic factor in all statements showing costs of living, costs of products, costs of services and costs of government, whether rendered by a person, a partnership, a corporation or a government. Such an analytic grouping is especially needed in public accounting.

It is the function of associations devoted to scientific study to formulate statements of economic principles and analytic

groupings of the items of accounts designed to bring into view and show the correct value of every economic factor involved. By so doing they can erect scientific standards for the guidance of the people. In this way, and in this way only, can a correctly informed public opinion be created that will require public regulations and public policies to conform with scientific economic standards.

Effective economic regulations cannot be formulated or enforced without the guidance of scientific economic standards. The requirements of such standards must be recognized in all regulations required by law. Attempts to make such standards conform to the requirements of law will destroy them.

PUBLIC POLICIES MUST BE GUIDED BY FACTS.

The conduct of a person, partnership, corporation, or municipal body; of a school district, township, village, city, county, State or of the Federal Government, when guided without the information that can be derived only from a scientific system of accounting, is necessarily guided by guessing, prejudice and superstition. The science of accounting is to the government of the person, and of every combination of persons for private or public purposes, what the science of navigation is to ocean travel. It must be depended upon to guide action to the desired objective point. A correct observation of an untrue compass, or an unintelligent observation of a true compass must inevitably cause an error in direction.

All theories as to a proper course must submit to the arbitration of facts. Tested by ascertained facts, all theories must stand or fall. Those who honestly advocate and those who honestly oppose a policy should vie with each other in requiring that scientific and uniform standards and methods of accounting shall be employed for its administration. A knowledge of facts is necessary for the rendering of just judgments. Scientific and uniform standards and methods of accounting are fundamentally necessary for the demonstration of facts. Charges of dishonesty or incompetency are more frequently based on the results of a policy guided by unintelligent accounting than upon dishonest entries showing receipts or disbursements. Losses caused by ignorance are enormously greater than losses caused by dishonesty. Scientific accounting safeguards honesty. It tends to prevent dishonesty.

Honesty and intelligence must be combined to eliminte errors voluntarily or unintelligently made. When errors are eliminated, all records will tell the truth; all personal conduct will be right; all policies will be sound; the prosperity of the people will rest upon a foundation as enduring as the laws of nature that govern the fruitage of the earth.

AN ACCOUNTING SHOULD BE REQUIRED FROM THE BENEFICIARIES OF SPECIAL PRIVILEGES.

Whenever a government grants a special privilege, a due regard for the common good demands that an accounting be required from the beneficiary of the privilege that will clearly show all of the economic results of its administration. Without the information that can be derived only from a scientific system of accounting a government is powerless to regulate intelligently the administration of any privilege it may grant. It is fundamentally necessary that it shall be a settled principle of public policy that every grant of a special privilege shall provide that the beneficiaries of the privilege shall keep the accounts of its administration as public accounts, in form prescribed by the government, and that they shall be audited annually by a certified public accountant. When the exercise of a privilege involves the supplying of a service to the public, the grant should provide that charges shall not be higher than is necessary to produce an annual income sufficient to pay all costs of ownership and operation and a reasonable profit for the compensation of owners and managers. This is a fundamental basis for the intelligent regulation of all public service utilities. When regulated on this basis, every public service utility will become, as the grant of the privilege ~~designated~~ designed it should be, an important factor in the development of the common good.

SHIP SUBSIDY.

An intelligent application of this proposition to the policy of subsidizing ocean steamship lines will settle that question in a way that will effectually establish our merchant marine wherever government aid is required for the accomplishment of such a purpose. The bill should provide that every beneficiary of a subsidy authorized by the act shall operate his ships between ports on a sailing schedule and that all charges for services of every kind shall be according to rate schedules approved by the government. The bill should also provide that all accounts of the beneficiary pertaining to the operation of the service shall be kept as public accounts, in form prescribed by the government, and shall be audited annually by a certified public accountant, and that the subsidy shall be an amount which, in addition to all income derived from operation, is sufficient to pay a reasonable dividend upon the capital necessarily employed, with a flexible differential based on percentage of increase in business from year to year.

These provisions will secure the establishment of lines between ports where the promotion of commerce is desirable. It will supply the two most important factors in the development of commerce, regularity of service and low transporta-

tion charges. They will enable the government to deliberately fix sailing dates and rates of charges, in order to promote commerce, that will not produce sufficient income to pay dividends, permitting dividends to be paid out of the subsidy until such time as an increased volume of business may render a subsidy unnecessary. The development of commerce is the true objective point, not the building or sailing of ships. When a sufficient volume of commerce has been established, the ships it requires will be built and navigated without the aid of a subsidy.

To grant a subsidy without providing for governmental control over the ports between which the ships are to sail, their sailing dates, the charges for their service, the accounting of their operation and the dividends they are to earn, will be to deliberately give away money collected from taxpayers without securing an equivalent in value for the promotion of the common good.

PROTECTIVE TARIFF.

The principle, American protection for American industries, is as vitally necessary for American commercial independence as the principle that every citizen shall owe allegiance to no other government is to American political independence.

When American protection is granted to an industry in order to enable it to overcome an existing difference in economic conditions, the purpose is to protect such industry until through its economic development and other economic changes, it is able to operate without the aid of governmental protection. The effective application of this principle is absolutely dependent upon a system of statistical information that will show accurately, at all times, all changes in economic conditions at home and abroad which in any way affect the economic condition of a protected industry. Such economic changes may be entirely independent and outside of the industry itself, such as increased cost of production in foreign countries, or decreased rates of interest, taxes, or transportation charges in this country. To such changes must be added decreased cost of production on the part of the industry incident to decreased cost of material or wages and the economies that result from improved machinery and increased output. The amount of protection required at any time is, or should be, determined by the difference between the total of economic advantages enjoyed by the American producer in comparison with the total of economic advantages enjoyed by his foreign competitor who seeks to sell products in our home market. Protection will become effectively established only when applied under the guidance of a statistical accounting system that will continuously adjust this difference in economic advantages in accordance with scientifically ascertained facts.

As the principle of protection is applied by means of an

import duty, the amount of the revenue tariff, plus cost of transportation from a foreign country, is always an important factor in the economic advantages possessed by an American producer selling in our home market.

The adjustment of the difference in economic advantages may be illustrated as follows:

ANNUAL ADJUSTMENT OF ECONOMIC DIFFERENCES.

Years	1	2	3	4	5	6	7	8	9	10
Ocean Transportation	5	4	3	4	5	6	5	4	4	5
Federal Revenue Tariff	10	10	12	12	11	11	10	10	9	9
American Economic Development	45	50	55	60	55	50	65	70	80	86
Total Value of American Economic Position	60	64	70	76	71	67	80	84	93	100
Total Value of Foreign Economic Position	100	100	100	100	100	100	100	100	100	100
Federal Protection Duty Required to Adjust Economic Difference	40	36	30	24	29	33	20	16	7	0

It will be observed that in the last two years the total of cost of transportation, revenue duties and American economic development gives the American producer points of advantage nearly equal and finally equal to the total of foreign economic advantages.

Of course none of these conditions remain in a permanently fixed condition from year to year, all are subject to frequent changes; even the rate of revenue tariff here shown to change but little for the entire period, may be changed materially.

The adjustment of economic differences, like the settlement of trade balances, is an ever-recurring contingency. Such adjustments can be properly made only through the work of a thoroughly organized and equipped permanent protective tariff commission clothed with ample authority to investigate, verify and apply ascertained facts to the problem of promoting the common good through adequate protection for American industries.

The adoption of this system will substitute the stability of a scientific method of administering the economic principle of American protection for American industries for the existing uncertainty of legislation guided by an uninformed electorate.

SCIENTIFIC ACCOUNTING AND THE BUDGET SYSTEM.

Argument is not needed in your presence to demonstrate the advantages of the budget system of public financial administration. Equally obvious to you are the advantages of a scientific system of accounting to serve as an indispensable basis for the budget system. You have no more time than you will need to get this foundation well made before public policy will

require that the budget system shall be erected upon it. It will not be long before public opinion will hold the executive branch of a government to a strict responsibility for estimated expenditures as well as for expenditures actually made. Scientific accounting must furnish the information without which reliable estimates cannot be made. Scientific accounting must furnish the evidence that expenditures have been economically made. By this means only can a scientific system of co-ordinating revenue and expenditures be established.

It is the business of those responsible for the financial management of a government to see that each department gets the money it needs, that no money goes where it is not needed, that revenue is procured in the least troublesome and least expensive way, that an exact yearly balance is struck, that the policy of expenditure is self-consistent and reasonably permanent from year to year. Such an administrative policy cannot be effectively carried out without the adoption of the budget system.

An important step in this direction has been taken by the Federal government. What is virtually a revolution in financial methods was effected last year in the adoption of section 7 of the Sundry Civil Appropriation bill, approved March 4, 1909, the precise language of which follows:

"Immediately upon the receipt of the regular annual estimates of appropriations needed for the various branches of the government it shall be the duty of the Secretary of the Treasury to estimate as nearly as may be the revenues of the government for the ensuing year, and if the estimates for appropriations, including the estimated amount necessary to meet all continuing and permanent appropriations, shall exceed the estimated revenues, the Secretary of the Treasury shall transmit the estimates to Congress as heretofore required by law, and at once transmit a detailed statement of all of the said estimates to the President, to the end that he may, in giving Congress information of the state of the Union and in recommending to their consideration such measures as he may judge necessary, advise the Congress how, in his judgment, the estimated appropriations could with least injury to the public service be reduced so as to bring the appropriations within the estimated revenues, or, if such reduction be not, in his judgment, practical, without undue injury to the public service, that he may recommend to Congress such loans or new taxes as may be necessary to cover the deficiency."

The *New York Journal of Commerce*, in its issue for December 13, 1909, commenting upon this provision editorially, says:

"Careful examination of the terms of the new law reveals the fact that it is destined to accomplish more than merely a balance between receipts and expenditures. The happy-go-lucky methods by which appropriation bills have been delayed

until the closing days of the session will have to be reformed if the law is to be really operative. It comes as near giving the President a veto of separate items of an appropriation bill as anything that could be devised under our system, and it is, briefly, the most beneficent change that has been introduced into our system of national finance since its organization."

The importance of this provision of law is not overestimated. The improvement it will induce in the management of our system of national finance will be a continuing beneficence. But of equal importance will be the improvements it will induce in the public accounting system made necessary to furnish a correct basis for the estimates and recommendations it requires from the Secretary of the Treasury and the President. It is your duty to devise and establish the accounting changes required.

A NEW CO-ORDINATE BRANCH OF GOVERNMENT NEEDED.

The founders of our government won undying fame for their wisdom in providing for three independent departments of government exercising co-ordinated powers. To the wisdom of these provisions we today ascribe the stability of our institutions. The time has come when the need of a fourth independent and co-ordinate department—a department of accounts and statistics—has been demonstrated. To the work of such a department posterity is certain to ascribe the efficiency of their government.

If public administration is to become as efficient as private management, the duties of prescribing accounting systems, so as to bring into view and assign to its true place of importance every economic factor and social detail necessary for correctly guiding public opinion, must be performed by public officers who are independent of the legislative, executive and judicial departments of the government, whose work it is their duty to review and audit. The functions of such a department will be scientific, not legislative, executive, or judicial. The duty of its officers will be to examine all evidence and determine whether or not all sums due to the government have been collected, and whether or not all public disbursements have been made as directed by authority of ordinance or law. Their certificate will vouch for the honesty of every person responsible for the handling of public funds, and their comparative reports will demonstrate his executive efficiency.

The higher duties of the department will be to formulate standards of efficiency, tabulate and publish comparative statistics showing the results of experience, and demonstrating

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by scientifically ascertained facts the effects of governmental policies in promoting or retarding the common good.

The department of accounts and statistics should be modeled after the judiciary. Its officers should be appointed or elected in the same manner as the Justices of the Supreme Court. They should enjoy the same tenure of office, receive the same compensation, and be equally as independent of the legislative or executive branches of government.

The functions of this department will be to promote efficiency, prevent waste or fraud, and to report facts, uninfluenced by the commercial or political necessities of any person, set of men, or party, and to supply correct information for the guidance of the public policies adopted by the people.

When those things are done there is no reason in the nature of things why public administration may not become as efficient as private management. The doing of these things will make all American units of government—the school district, the township, the village, the city, the county, the State and the Federal government—the most efficient organizations for the promotion of the common good produced by twentieth century civilization.

These things will be done when the business men of the country unite in demanding that they shall be done.

CONCLUSION.

It is not your function to enact laws. It is your function to analyze laws and the construction given them, with the purpose of giving a proper explanation of their administration and effects through the statistical statements furnished from the accounts you keep.

The creative powers you may exercise are of the highest order. It is your function to erect standards by which the intelligence and justice manifested in laws may be determined.

Cause your work to honor you, and you will make a contribution to the common good that cannot be computed in terms of the money of accounts, but it will inspire to honorable conduct all with whom you come in contact.

Upon your patient and intelligent work the effective administration of our public business depends.

From the scientific standards and methods you employ must be drawn the information by which alone our progress in civilization can be intelligently guided.